

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
WEST MCLEAN COUNTY FARMERS
MUTUAL INSURANCE COMPANY
GARRISON, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2004**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

West McLean County Farmers Mutual Insurance Company

Garrison, North Dakota

as of December 31, 2004, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

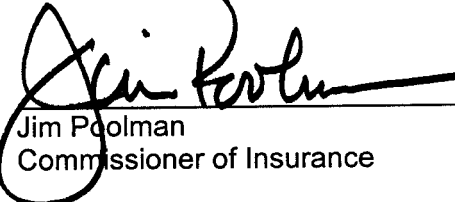


IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 23rd day of

November, 2005.



Jim Poolman
Commissioner of Insurance

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Minot, North Dakota
September 30, 2005

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination was made of the books, records, and financial condition of

West McLean County Farmers Mutual Insurance Company

Garrison, North Dakota

as of December 31, 2004.

INTRODUCTION

West McLean County Farmers Mutual Insurance Company, Garrison, North Dakota, hereinafter referred to as the "Company," was last examined as of December 31, 1999, by a representative of the State of North Dakota.

SCOPE OF EXAMINATION

The current examination covers the period January 1, 2000, through December 31, 2004, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination.

This examination was made in accordance with the practices and procedures promulgated by the NAIC with due regard to the statutory requirements of the insurance laws, rules, and regulations of the State of North Dakota.

Examination procedures included verification and evaluation of assets, a determination of liabilities, and reviews of corporate records, claim files, and other records relating to Company operational practices. An executed certificate of representation was received from management.

The Company is in compliance with all recommendations set forth in the previous examination report except the following:

Recommendation	Action by the Company
It is recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.	The reinsurance contract with Grinnell Mutual still does not contain an "entire contract" clause.
It is recommended that the Company complete its statutory annual statement in accordance with the <i>Instructions to the County Mutual Annual Statement</i> .	Numerous reporting differences were noted in the 2004 Annual Statement.
It is recommended that the Company establish procedures to document its calculation of unpaid losses and LAE reserves reported on the annual statements with a detailed listing of components.	The Company did not retain documentation supporting its reported reserves for unpaid losses and unpaid loss adjustment expenses.

HISTORY

The Company was incorporated on February 19, 1907, under the then existing laws of the State of North Dakota as the "West McLean County Farmers Mutual Lightning and Fire Insurance Company," with its home office and principal place of business at Garrison, North Dakota. Business commenced in April 1907.

The Company was organized for the specific purpose of mutually insuring the property of its members against any and all risks of hazard permitted by law, with all of the rights and privileges granted or permitted by law. The Company's term of existence is on a perpetual basis in accordance with N.D. Cent. Code § 26.1-13-03.

In 1956, the name of the Company was changed to read, "The West McLean County Farmers Mutual Insurance Company."

MANAGEMENT AND CONTROL

The Company is controlled by its membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges accorded each member. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The Bylaws provide that the management of the Company's affairs, business, and property is vested in a Board of Directors composed of five to seven members elected for staggered terms of three years each at the annual meeting of the membership. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

Directors duly elected and serving the Company at December 31, 2004, were as follows:

Name and Residence	Term Expires	Occupation
Wayne Hansen Ryder, North Dakota	2007	Farmer
John Bearman Minot, North Dakota	2006	Insurance Agent
Vernon Wenger Minot, North Dakota	2005	Retired
Eugene Zaderaka Max, North Dakota	2007	Farmer
Ronald Hummel, Sr. Garrison, North Dakota	2005	Retired
Ronald Bloom Ryder, North Dakota	2007	Farmer

Officers

Officers are elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting. Officers serving at December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Ronald Bloom	President
Eugene Zaderaka	Vice President
Deme Schlecht	Secretary-Treasurer

CORPORATE RECORDS

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Members

During the period under examination the annual meetings of the membership were held on the following dates: March 16, 2000; March 15, 2001; March 21, 2002; March 20, 2003; and March 26, 2004.

At its March 26, 2004, meeting the members amended the Bylaws of the Company as follows:

Article IV, Section 3 Changed the number of directors from seven directors to five to seven directors.

Article IX, Section 1 Changed the daily compensation for directors from \$40 per day to a reasonable sum for actual service.

Directors

During the period under examination the Board of Directors held six meetings in 2000, seven in 2001, eight in 2002, ten in 2003, and nine in 2004.

The minutes were reviewed for compliance with statutory requirements and the Articles and Bylaws with no significant exceptions noted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2004, there was in force a policy insuring the Company against loss caused by employee dishonesty. The policy covers the positions of Secretary-Treasurer to a limit of \$25,000 and Assistant Secretary-Treasurer to a limit of \$5,000. The coverage meets the minimum amount of fidelity insurance suggested in the NAIC's formula.

The Company also had in force a directors and officers liability insurance policy providing a limit of liability of \$1,000,000 each policy year. Each claim is subject to a \$5,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

Coverage on the Company's home office building was reviewed and appeared to be adequate.

TERRITORY AND PLAN OF OPERATION

At December 31, 2004, the Company was authorized to transact business in the following counties:

Bottineau
Burke
Divide
McHenry

McKenzie
McLean
Mercer
Mountrail

Renville
Sheridan
Ward
Williams

At December 31, 2004, the Company had 15 licensed agents.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company since the previous examination. Data with respect to the years 2000-2003 is compiled from home office copies of the filed Annual Statements. Data for the years 1999 and 2004 reflect the results of statutory examinations.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policy-holders	Net Premiums Written	Under-writing Deductions	Invest-ment and Other Income	Net Income (Loss)
1999*	\$ 525,491	\$141,397	\$384,094	\$185,253	\$295,443	\$31,992	\$(78,198)
2000	562,184	168,999	393,184	196,486	207,113	91,670	81,043
2001	612,186	172,324	439,862	220,893	216,942	44,612	48,563
2002	632,630	121,187	511,443	291,284	332,902	42,538	920
2003	1,053,223	289,546	763,677	383,034	298,560	64,611	149,085
2004	646,293	370,937	275,356	474,792	471,195	43,776	47,373

* Operating results excludes funds borrowed and repaid in 1999.

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2004.

	2004	2003	2002	2001	2000
Premiums	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions:					
Losses and Loss Adjustment	59.8%	41.6%	40.5%	44.0%	45.5%
Underwriting Expenses	39.5%	36.4%	73.8%	54.2%	59.9%
Total Deductions	99.3%	78.0%	114.3%	98.2%	105.4%
Net Underwriting Gain (Loss)	0.7%	22.0%	(14.3)%	1.8%	(5.4)%

INSURANCE PRODUCTS AND RELATED PRACTICES

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was general in nature and substantially less in scope than a full scope market examination.

This review was directed at business practices in the following major areas: advertising and sales and treatment of policyholders.

Advertising and Sales Materials

The Company's advertising during the period under examination consisted primarily of giveaway items.

Treatment of Policyholders

A limited review of claims files and return premiums was made to evaluate the Company's treatment of policyholders and claimants. Special emphasis was placed on the promptness of payment, adherence to contractual provisions, and support for payment.

The Company uses the short-rate method to compute return premiums on homeowner's policies when the insured cancels the policy rather than the prorated premium as stated in the cancellation provision of the homeowner's policy.

Recommendation: It is recommended that the Company identify all homeowner cancellations processed both during the period under examination (2000-2004) and through the date of this report and refund to the policyholder the difference between the prorated unearned premium and the return premium already paid to the insured.

It is also recommended that the Company prospectively adopt the prorated method to compute return premiums on all homeowner cancellations in conformity with the homeowners policy.

REINSURANCE

The reinsurance treaty in force at December 31, 2004, is summarized below.

Nonaffiliated Ceding Contract:

Type: Individual Occurrence of Loss Excess with Aggregate Excess

Reinsurer: Grinnell Mutual Reinsurance Company

Scope: All policy forms and endorsements issued by the Company

(A) Individual Occurrence of Loss Excess - Covers all fire and windstorm risks written by the Company in excess of a \$50,000 retention subject to the following limits:

Dwellings	\$500,000
Farm Outbuildings	\$750,000
Livestock/Poultry/Horse Operations	\$500,000
Commercial and Public Property	\$500,000

- (B) Aggregate Excess - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2004 was \$350,979.
- Premium:
- (A) Individual Occurrence of Loss Excess - The 2004 annual premium was \$.3388 for fire and \$.1069 for wind per \$1,000 adjusted gross fire risks in force.
- (B) Aggregate Excess - The 2004 annual premium was \$.5262 per \$1,000 of adjusted gross fire risks in force.
- Commissions: None
- Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice.

The contract contained the insolvency clause required by N.D. Cent. Code § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual* except for the "entire contract" clause.

Recommendation: It is again recommended that the Company amend its agreement with Grinnell Mutual Reinsurance Company to include the "Entire Contract" provision.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transactions cycles were reviewed during the course of the examination and a trial balance as of December 31, 2004, was obtained and traced to the appropriate schedules of the Company's 2004 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The Company uses the Mutual Automation Package (Mapplus) software program for policy processing and premium billing. The cash receipts journal claims register and other miscellaneous accounting records are maintained in Excel spreadsheets. Cash disbursements and general journal entries are maintained in a Medlin Accounting general ledger module. The Medlin program generates a bank reconciliation and various reports including a trial balance, income statement and balance sheet.

At December 31, 2004, the Company's electronic data processing equipment consisted of a two personal computers, printers, and peripheral equipment. The personal computers were purchased in 2004. The Company treats its investment in the electronic data processing system as a non-admitted asset.

The Examiner obtained a trial balance as of December 31, 2004, and traced it into the 2004 Annual Statement and performed other tests of accounting records designed to test the integrity of the data.

The following is a list of reporting differences noted in the 2004 Annual Statement:

Section VII – Part 2 - Common Stocks Owned

1. CUSIP Column – The CUSIP number for NAMICO common stock was not reported.
2. Rate Per Share – The Company reported the rate used to determine market value in column 5 rather than column 7.
3. Dividends Received – Column 10 was not completed.

Section XI – Expenses

4. Claim Adjustment Expenses – Column 5 was not completed.

Section XII - General Interrogatories

5. Retention – The retention response should have been \$50,000 instead of \$75,000.
6. Amended Bylaws – The policyholders adopted two amendments to the Bylaws at its March 26, 2004, annual meeting; accordingly the response to GI # 2 should have been “yes” instead of “no”.

Schedule N – Cash on Deposit

7. Checking Account – Accounts not earning interest (e.g., a checking account) should be listed first in Schedule N.
8. Interest Rates – Three interest rate differences were noted in column 3.

Section A – Real Estate

9. Gross Income – The amount in column 10 should have been \$1,515 not \$1,200.
10. Gross Expenses – The amount in column 11 should have been \$4,738.91 not \$1,200.

Recommendation: It is again recommended that the Company complete its statutory annual statement in accordance with the *Instructions to the County Mutual Annual Statement*.

In conducting tests and obtaining supporting documentation, the following exception was noted:

- Unpaid Losses and Loss Adjustment Expenses – Amounts reported on the annual statement were estimated by management based on a cursory review of unpaid claims at December 31, 2004. The Company was not able to provide detail records supporting the reported amounts.

Recommendation: It is again recommended that the Company document its calculation of unpaid losses and LAE reserves reported on the annual statements with a detailed listing of components.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2004, as determined by this examination and its operating results for the year then ended.

West McLean County Farmers Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2004

ASSETS

LEDGER ASSETS:

Bonds	\$ 75,000.00
Stocks	275,014.52
Real Estate	24,000.00
Checking Account	104,101.06
Cash on Deposit	<u>329,769.32</u>

TOTAL LEDGER ASSETS \$807,884.90

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 1,125.60
Dividends Due and Accrued on Stocks	748.71
Interest Due and Accrued on Cash on Deposit	1,743.36
Furniture and Fixtures	<u>6,417.30</u>

TOTAL NONLEDGER ASSETS 10,034.97

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$ 6,417.30
Book Value in Excess of Market Value	5,146.56
Market Value of Stocks over Statutory Limitations	<u>160,062.88</u>

TOTAL NONADMITTED ASSETS 171,626.74

TOTAL NET ADMITTED ASSETS \$646,293.13

LIABILITIES

Unpaid Losses	\$ 18,820.74
Unpaid Loss Adjustment Expense	495.00
Unearned Premium Reserve	320,657.42
Commissions Due & Payable to Agents	7,507.82
Unpaid Taxes	4,894.16
Unpaid Salaries	493.50
Unpaid General Expenses	798.72
Reinsurance Premiums Due and Payable	13,238.10
All Other Liabilities	<u>4,031.79</u>

TOTAL LIABILITIES \$370,937.25

SURPLUS TO POLICYHOLDERS 275,355.88

TOTAL LIABILITIES AND SURPLUS \$646,293.13

West McLean County Farmers Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For the Year Ended December 31, 2004

INCOME

Gross Premium Income	\$638,710.27
Less: Return Premiums	14,924.31
Premiums for Reinsurance Ceded	<u>148,993.65</u>

NET PREMIUM INCOME \$474,792.31

Interest on Bonds	3,354.88
Dividends on Stocks	11,746.92
Gross Rent from Company's Property	1,515.00
Interest on Cash on Deposit	13,160.96
Commissions and Service Fees	13,921.44
Other Income & Prior Period Adjustment	<u>76.01</u>

TOTAL INCOME RECEIPTS \$518,567.52

DISBURSEMENTS

Gross Losses Paid and Incurred in 2004	\$270,757.39
Gross Losses Paid in 2004 but Incurred in Prior Years	12,123.86
DEDUCT: Salvage	5,151.00
Reinsurance	<u>10,377.07</u>

NET LOSSES PAID \$267,353.18

Claim Adjustment Expenses	16,353.83
Commissions Paid to Agents	95,871.35
Directors' Fees and Expenses	7,200.42
Salaries to Employees	35,408.80
Printing, Stationery, and Office Supplies	6,559.03
Rent and Rent Items	1,200.00
State and Local Insurance Taxes	2,542.94
Taxes on Real Estate	995.97
State and Local Insurance Taxes	9,975.00
Insurance Department Licenses and Fees	570.21
Payroll Taxes	3,116.44
Legal Fees & Auditing	450.00
Travel and Travel Items	1,372.54
Advertising	619.50
Dues and Donations	3,015.00
Equipment	5,900.64
Insurance and Bonds	2,944.45
Postage, Telephone, and Bank Charges	6,159.80
Data Processing Expenses	1,725.00
Misc. Expenses	<u>1,860.83</u>

TOTAL FUNDS DISBURSED 471,194.93

NET GAIN \$47,372.59

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2004, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Bonds **\$75,000.00**

Bonds consist of three long-term certificates of deposit which were reclassified by the Examiner from Cash on Deposit to this caption in accordance with the criteria set forth in Bulletin 2003-3.

Stocks **\$275,014.52**

Book Value of Ledger Assets in Excess of Market Value **\$5,146.56**

Market Value of Stocks in Excess of Statutory Limitations **\$160,062.88**

The following schedule discloses the classification, number of shares, cost and book value, and market or admitted value of all shares owned at year end:

Classification	Number of Shares	Cost and Book Value	Market Value
Common Stocks	30.00	\$ 1,500.00	\$ 4,987.80
Mutual Funds	35,972.41	273,514.52	264,889.16
TOTALS	36,002.41	\$275,014.52	\$269,876.96

Book values were verified to the accounting records and statements from brokers. Market values were determined using unit prices listed in the *Wall Street Journal* and other independent sources.

N.D. Cent. Code § 26.1-05-19(21)(a) restricts investments in preferred, guaranteed, and common stocks (includes mutual funds) issued or guaranteed by a single person to an amount not in excess of 3% of the insurance company's admitted assets. At December 31, 2004, the market value of shares in the Franklin U.S. Government Securities Fund and Sun America U.S. Government Securities Fund exceeded the 3% of admitted asset limitation. The aggregate amount by which the two funds exceeded the 3% limitation was \$216,507.80.

Additional investment authority for investments exceeding statutory limitations is found in N.D. Cent. Code § 26.1-05-19(33), commonly known as the basket clause. It provides additional investment authority allowing insurers to invest funds in investments not specifically authorized elsewhere to an amount that does not exceed either 7% of the company's admitted assets, or the amount equal to the company's capital and surplus in excess of the minimum capital and surplus required by law, whichever is less. The basket clause provided an additional investment authority of \$56,444.92 at December 31, 2004.

The Examiner treated the excess of market value over the 3% limitation and the authority provided by the basket clause as a non-admitted asset:

Market Value of Funds Over the 3% Limitation	\$216,507.80
December 31, 2004, Basket Clause	<u>56,444.92</u>
Non-admitted	<u>\$160,062.88</u>

Recommendation: It is recommended that the Company review its stock positions for compliance with the limitations set forth in N.D. Cent. Code §§ 26.1-05-19(21) (a) and 26.1-05-19(33) and report a non-admitted asset in its annual statement in the event that the market value of stocks exceeds statutory limitations.

Checking Account

\$104,101.06

The balance in the checking account was determined to be \$104,101.06 or \$229.99 more than the amount reported by the Company in its 2004 Annual Statement.

It was noted that the Company's aggregate deposit in the Garrison State Bank exceeded FDIC insured limits.

Recommendation: It is recommended that the Company limit its deposit in any one banking institution to the amount guaranteed by the FDIC.

Cash on Deposit

\$329,769.32

Finding: The following three long-term certificates of deposit should have been reported as bonds on Section VII, Part 1 instead of in Schedule N as cash on deposit.

<u>CD #</u>	<u>Amount</u>	<u>Maturity Date</u>
13493	\$25,000	4-16-2006
27276	\$25,000	7-11-2006
28063	\$25,000	9-10-2008

In accordance with Bulletin 2003-3, the Examiner reclassified the foregoing certificates of deposit as bonds.

Recommendation: It is recommended that the Company classify certificates of deposits with a term longer than one year as bonds rather than as cash on deposit if the CDs do not meet the exemption requirements cited in Bulletin 2003-3.

Dividends Due and Accrued on Stocks

\$748.71

Dividends due and accrued on stocks were determined to be \$748.71 or \$748.71 more than the amount reported by the Company.

Unpaid Losses**\$18,820.74**

The reserve for unpaid losses at December 31, 2004, was determined by this examination in the amount of \$18,820.74 or \$14,352.12 more than the \$4,468.62 reserve established by the Company. The Examiner established the reserve for unpaid losses based on a review of subsequent payments and reserves for pending claims.

Unpaid Loss Adjustment Expenses**\$495.00**

The reserve for unpaid loss adjustment expenses at December 31, 2004, was determined by this examination in the amount of \$495.00 or \$195.00 more than the \$300.00 reserve established by the Company. The Examiner established the reserve for unpaid loss adjustment expenses based on a review of subsequent payments.

Unearned Premium Reserve**\$320,657.42**

The Company computes its unearned premium reserve using the semi-monthly pro-rata basis. Testing by the Examiner determined that the Company overstated its unearned premium reserve by \$14,096.75 due to a mathematical error and the omission of return premiums from the computation.

Commissions Due and Payable to Agents**\$7,507.82**

Unpaid commissions consisted of the bonus commission for 2004 which was paid in January 2005.

Unpaid Taxes**\$4,894.16**

Unpaid taxes consisted of the following items and amounts:

Premium Taxes	\$4,701.00
Federal Unemployment	112.00
Payroll Taxes	81.16
Total	<u>\$4,894.16</u>

The above amounts were established from a review of subsequent payments and related tax forms.

Unpaid Salaries**\$493.50**

Unpaid salaries consisted of wages earned by the Company's part-time employee in the last half of December.

Unpaid General Expenses**\$798.72**

Unpaid general expenses were determined from a review of vendor invoices and subsequent payments.

The Company did not establish a liability for the above four captions in its 2004 annual Statement.

Recommendation: It is recommended that the Company's Annual Statement contain an accurate and complete list of all unpaid obligations of the Company including unpaid commissions, unpaid taxes, unpaid salaries and unpaid general expenses which must be reported on appropriate captions of the Annual Statement.

Surplus to Policyholders**\$275,355.88**

Surplus to policyholders was determined by this examination to be in the amount of \$275,355.88, or \$173,228.75 less than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) To Surplus
Ledger Assets:			
Bonds	\$ 0	\$ 75,000.00	\$ 75,000.00
Checking Account	103,871.07	104,101.06	\$229.99
Cash on Deposit	404,769.32	329,769.32	(75,000.00)
Non-Ledger Assets:			
Interest Due and Accrued on Bonds	0	1,125.60	1,125.60
Dividends Accrued on Stocks	0	748.71	748.71
Interest Due and Accrued on CD's	2,868.96	1,743.36	(1,125.60)
Non-Admitted Assets:			
Market Value of Stocks over Statutory Limitations	0	160,062.88	(160,062.88)
Liabilities:			
Unpaid Losses	4,468.62	18,820.74	(14,352.12)
Unpaid Loss Adjustment Expenses	300.00	495.00	(195.00)
Unearned Premium Reserve	334,754.17	320,657.42	14,096.75
Commissions Due and Payable to Agents	0	7,507.82	(7,507.82)
Unpaid Taxes	0	4,894.16	(4,894.16)
Unpaid Salaries	0	493.50	(493.50)
Unpaid General Expenses	0	798.72	(798.72)
Net Increase (Decrease)			<u>\$(173,228.75)</u>

CONCLUSION

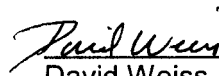
The financial condition of West McLean County Farmers Mutual Insurance Company, Garrison, North Dakota, as determined by this examination as of December 31, 2004, is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$646,293.13</u>
Total Liabilities	\$370,937.25	
Surplus to Policyholders	<u>275,355.88</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$646,293.13</u>

During the five-year period under examination, admitted assets increased by \$120,801.64, liabilities increased by \$229,540.21, and surplus to policyholders decreased by \$108,738.57.

The Examiner expresses his appreciation for the courteous cooperation extended him during the course of this examination.

Respectfully submitted,



David Weiss
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company identify all homeowner cancellations processed both during the period under examination (2000-2004) and thru the date of this report and refund to the policyholder the difference between the prorated unearned premium and the return premium already paid to the insured which was determined using the short-rate method.

It is also recommended that the Company prospectively adopt the prorated method to compute return premiums on all homeowner cancellations in conformity with the homeowners policy.

It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.

It is again recommended that the Company complete its statutory annual statement in accordance with the *Instructions to the County Mutual Annual Statement*.

It is again recommended that the Company establish procedures to document its calculation of unpaid losses and LAE reserves reported on the annual statements with a detailed listing of components.

It is recommended that the Company review its stock positions for compliance with the limitations set forth in N.D. Cent. Code §§ 26.1-05-19(21) (a) and 26.1-05-19(33) and report a non-admitted asset in its annual statement in the event that the market value of stocks exceeds statutory limitations.

It is recommended that the Company limit its deposit in any one banking institution to the amount guaranteed by the FDIC.

It is recommended that the Company classify certificates of deposits with a term longer than one year as bonds rather than as cash on deposit if the CDs do not meet the exemption requirements cited in Bulletin 2003-3.

It is recommended that the Company's Annual Statement contain an accurate and complete list of all unpaid obligations of the Company including unpaid commissions, unpaid taxes, unpaid salaries and unpaid general expenses which must be reported on appropriate captions of the Annual Statement.